

Appendix B provides the average Medicare allowed amounts and actual average wholesale prices computed for the 22 drug codes reviewed. Although we utilized the actual average wholesale price to report savings in the findings section of this report, the appendices also contains the potential savings to Medicare if the lowest and highest wholesale prices found were compared to the Medicare allowed amount.

FINDINGS

MEDICARE ALLOWANCES FOR 22 DRUGS EXCEEDED ACTUAL WHOLESALE PRICES BY \$447 MILLION IN 1996.

Medicare carriers now base prescription drug reimbursement on published average wholesale price of drugs. However, physicians and suppliers are often able to purchase drugs for prices that are much lower than the official AWPs provided by manufacturers.

After reviewing wholesale drug catalogs and group purchasing organizations' prices for the 22 drugs, we estimated that \$447 million would have been saved by Medicare and its beneficiaries if Medicare had based reimbursement on actual wholesale prices rather than published AWPs in 1996. These wholesale prices are available to physicians, specialized pharmacies, and other suppliers. These wholesale prices represent the actual acquisition costs to physicians and suppliers that bill Medicare for these drugs.

Total allowed charges for the 22 drugs would have been reduced by 29 percent (\$447 million of \$1.5 billion) if actual wholesale prices rather than AWP were the basis for Medicare reimbursement. The 22 drugs represented 67 percent of the \$2.3 billion in total Medicare drug allowances for 1996. If the savings percentage for just the 22 drugs was applied to Medicare's reimbursement for all drugs, the program and its beneficiaries would have saved an estimated \$667 million in 1996.

The savings for individual drugs ranged from 13 percent of allowances for three drugs (J9202, Q0136, J9185) to a high of 92 percent for leucovorin calcium (J0640). Almost half of the drugs (10 of 22) had estimated savings greater than 40 percent of allowances. A table provided in Appendix C lists the 1996 allowances and estimated savings for the 22 drugs. The table also lists the percentage of allowance saved for each individual drug if reimbursement had been based on the actual average wholesale prices available for the drug.

Similar savings of \$445 million were identified for 1995.

If Medicare had based reimbursement on actual wholesale costs in 1995, the program and its beneficiaries would have saved an estimated 35 percent in payments for the 22 drugs. This would have amounted to savings of \$445 million on \$1.3 billion in total 1995 program expenditures for these drugs. The \$1.3 billion in expenditures for the 22 drugs represented 70 percent of the \$1.8 billion in Medicare total drug allowances for 1995.

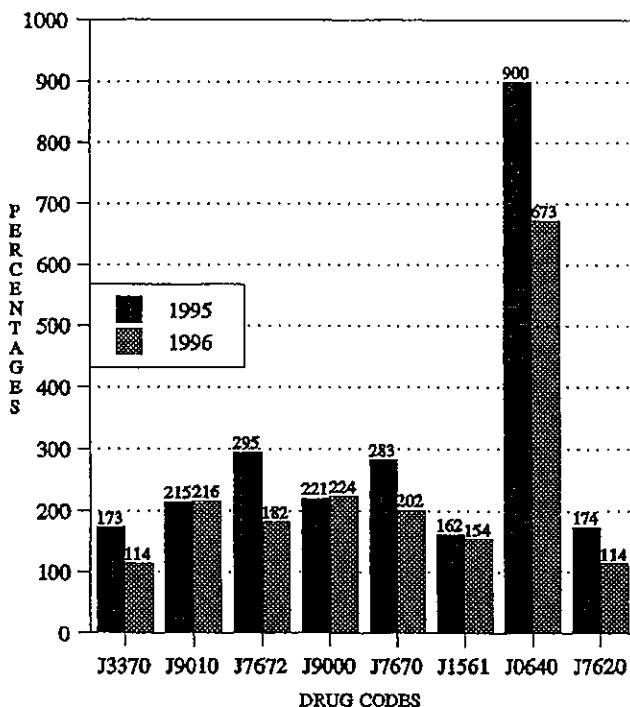
The percentage of allowance saved for individual drugs ranged from 15 percent for carboplatin (J9405) and fludarabine phosphate (J9185) to 95 percent for leucovorin calcium (J0640). Half of the drugs (11 of 22) had estimated savings greater than 40

percent of their 1995 allowances. Individual drug allowances and savings for 1995 are presented in Appendix C.

FOR MORE THAN ONE-THIRD OF THE 22 DRUGS REVIEWED, MEDICARE ALLOWED AMOUNTS WERE MORE THAN DOUBLE THE ACTUAL AVERAGE WHOLESALE PRICE AVAILABLE TO PHYSICIANS AND SUPPLIERS.

Medicare allowed between 2 and 10 times the actual average wholesale prices offered by drug wholesalers and group purchasing organizations for 8 of the 22 drugs reviewed. For one drug, Medicare allowed 900 percent more than the average price available for the drug in 1995 and 673 percent more in 1996. The chart below provides the percentage of the Medicare allowed amount that is greater than the actual average wholesale price for each of the eight drugs.

MEDICARE ALLOWED MORE THAN DOUBLE THE WHOLESALE PRICE FOR EIGHT DRUGS



Medicare allowances were also significantly higher than acquisition costs for the remaining 14 drugs reviewed. Medicare allowed 60 to 95 percent more than the actual average wholesale price for 3 drugs in 1995 and 2 drugs in 1996. Medicare allowed amounts were higher by 20 to 50 percent for 9 drugs in 1995 and 8 drugs in 1996. Reimbursement was between 11 and 18 percent more for the remaining 2 drugs in 1995 and 4 drugs in 1996.

Medicare and its beneficiaries paid at least 20 percent more than the actual average wholesale price for over 80 percent of the 22 drugs. For every one of the 22 drugs reviewed, Medicare allowed more than the average actual price in both 1995 and 1996. Not only did Medicare pay more than the average price, the program allowed more than even the highest wholesale price obtained for every drug. Appendix B provides information on the highest and lowest wholesale price available for each drug in 1995 and 1996.

Based on the differences found between Medicare allowed amounts and actual wholesale prices, it is apparent that the current Medicare reimbursement methodology is based on a significantly inflated AWP statistic which bears little resemblance to actual wholesale prices available in the marketplace.

THERE IS NO CONSISTENCY AMONG CARRIERS IN ESTABLISHING AND UPDATING MEDICARE DRUG REIMBURSEMENT AMOUNTS.

Although Medicare's reimbursement methodology for prescription drugs does not provide for different payment rates based on geographical factors, the allowed amounts for individual drug codes varied among the carriers. Medicare guidelines allow carriers to update prescription drug reimbursement on a quarterly basis. However, not only did some carriers update yearly rather than quarterly but carrier allowed amounts for the same drug code differed within a single quarter.

For some drug codes, the differences in allowed amounts were significant. Carriers' allowed amounts varied even for single-source drugs where the reimbursement rate is based on only one AWP. A carrier reimbursed code J9217 (leuprolide acetate, a single-source drug) at \$496.25 for all of 1995. Another carrier allowed \$412.29 for the first quarter of 1995, \$439.30 for the second and third quarters, and \$477.50 for the fourth. For the first quarter of 1995, providers in one State were receiving 20 percent more in reimbursement than providers billing the same drug code in another State. The second carrier eventually paid \$496.26 for this code in the first quarter of 1996. However, the first carrier increased reimbursement to \$515.63 in the same quarter.

Little uniformity was found among carriers when comparing changes in reimbursement from the first quarter of 1995 to the second quarter of 1997. One carrier's reimbursement for code J9000 (doxorubicin hcl, 10 mg.) increased 128 percent from \$20 to \$45.50. Another carrier's rate for the same code decreased 19 percent from \$48.20 to \$39.10.

Since Medicare does not allow geographical differences to effect drug reimbursement, variations would seem to be caused by carriers' decisions regarding when to update reimbursement, what sources to use for documenting AWPs, and in the case of multiple-source drugs which generic drugs to include in calculating the median statistic.

RECOMMENDATIONS

The findings of this report provide evidence that Medicare and its beneficiaries are making excessive payments for prescription drugs. The published AWPs that are currently being used by Medicare-contracted carriers to determine reimbursement bear little or no resemblance to actual wholesale prices that are available to the physicians and suppliers that bill for these drugs. By basing reimbursement on published AWPs rather than more appropriate acquisition or wholesale prices, we estimate that Medicare and its beneficiaries paid nearly one billion dollars more for 22 drugs in 1995 and 1996.

We believe the information in this report provides further support for a previous recommendation made by the Office of Inspector General. We recommended that HCFA reexamine its Medicare drug reimbursement methodologies, with the goal of reducing payments as appropriate. The HCFA concurred with the recommendation. We urge readers to review our prior report, *Medicare Payments for Nebulizer Drugs*, which provided the full text of HCFA's comments on our recommendation.

For our readers' convenience, the options for changing Medicare's reimbursement methodology that appeared in the recommendation are presented below. We have modified the original discounted AWP and acquisition cost options in response to the evidence presented in this report concerning the large disparity between published AWPs and actual average wholesale prices available for prescription drugs.

Options for Changing Medicare's Reimbursement Methodology for Prescription Drugs

Discounted Wholesale Price

Beginning in January 1998, Medicare will reimburse prescription drugs at 95 percent of AWP. Many State Medicaid agencies use greater discounted AWPs to establish drug prices. Medicare could also base its drug payments on this larger discounted average wholesale prices. We believe that the 5 percent discount that will soon be implemented is not a large enough decrease. Upon implementation of this option, some type of general limit should be applied to the prices to ensure that inappropriate increases in average wholesale prices that could occur in subsequent years do not adversely affect Medicare payments. In addition, the Secretary should be granted the authority to conduct sample surveys of actual wholesale prices to determine the amount of difference between actual average wholesale prices and published AWPs. The percentage difference found in the sample could then be applied to all AWPs used by the program to determine drug reimbursement.

Acquisition Cost

Medicare could base the payment of drugs on either actual or estimated acquisition costs. Although Medicare currently has the authority to use EAC, carriers have yet to

successfully implement the option. Upon implementation of either the actual or estimated method, we believe that some type of general limit should be applied to ensure that inappropriate increases in drug prices do not occur in subsequent years.

Manufacturers' Rebates

Medicare could develop a legislative proposal to establish a mandated manufacturers' rebate program similar to Medicaid's rebate program. We recognize that HCFA does not have the authority to simply establish a mandated manufacturers' rebate program similar to the program used in Medicaid. Legislation was required to establish the Medicaid rebate program, and would also be required to establish a Medicare rebate program. We have not thoroughly assessed how a Medicare rebate program might operate, what administrative complexities it might pose, or how a Medicare rebate program might differ from a Medicaid rebate program. We believe, however, the legislative effort would be worthwhile. The same manufacturers that provide rebates to Medicaid make the drugs that are used by Medicare beneficiaries and paid for by the Medicare program.

To implement this option, HCFA would have to revise Medicare's claims coding system which does not identify the manufacturer or indicate if the drug is a brand name or a generic equivalent, information that is needed to discount the AWP and obtain a rebate for a specific drug. Medicaid uses National Drug Codes (NDC) in processing drug claims. The NDC identifies the manufacturer and reflects whether the drug is a brand name or a generic equivalent.

Competitive Bidding

Medicare could develop a legislative proposal to allow it to take advantage of its market position. While competitive bidding is not appropriate for every aspect of the Medicare program or in every geographic location, we believe that it can be effective in many instances, including the procurement of drugs. Medicare could ask pharmacies to compete for business to provide Medicare beneficiaries with prescription drugs. All types of pharmacies could compete for Medicare business, including independents, chains, and mail-order pharmacies.

Inherent Reasonableness

Since Medicare's guidelines for calculating reasonable charges for drugs result in excessive allowances, the Secretary can use her "inherent reasonableness" authority to set special reasonable charge limits. If this option is selected, however, it will not be effective unless the Secretary's authority to reduce inherently unreasonable payment levels is streamlined. The current inherent reasonableness process is resource intensive and time consuming, often taking two to four years to implement. Medicare faces substantial losses in potential savings--certainly in the millions of dollars--if reduced drug prices cannot be placed into effect quickly.

We also believe that the variance of Medicare reimbursement for individual drug codes among carriers is inappropriate. The rate at which physicians and suppliers are paid for drugs should not depend on which carrier providers bill. We, therefore, recommend that HCFA require all carriers to reimburse a uniform allowed amount for each HCPCS drug code. The HCFA could choose to supply all carriers with a list of average wholesale prices that it has determined represent each drug code. The carriers could then use the uniform prices to calculate payment. The HCFA could also designate one single entity to perform all necessary calculations to determine reimbursement for each drug code on a quarterly basis. All carriers would then use this standard reimbursement amount.

AGENCY COMMENTS

The HCFA concurred with our recommendations. The HCFA's proposal in the President's 1998 budget that would have required physicians to bill Medicare the actual acquisition cost for drugs was not adopted by Congress. However, the agency states that it will continue to pursue this policy in other appropriate ways. The full text of HCFA's comments are provided in Appendix D.

We support HCFA's continued pursuance of reducing drug payments where appropriate. We do not believe that the reimbursement methodology for prescription drugs recently adopted by Congress will curtail the excessive drug payments we've identified in the Medicare program. In this report we've identified Medicare allowances that were 11 to 900 percent greater than drug prices available to the physician and supplier communities.

To address the issue of uniformity among carriers, HCFA has convened a workgroup to develop an electronic file consisting of the average wholesale prices for drugs covered by Medicare. The agency reports it will distribute this file to Medicare contractors for their use in paying drug claims.

APPENDIX A

Description of 22 HCPCS Codes

Code	Description
J9217	Leuprolide Acetate (for depot suspension), 7.5 mg.
J7620	Albuterol Sulfate, 0.083%, per ml., inhalation solution administered through DME
J9265	Paclitaxel, 30 mg.
J9202	Goserelin Acetate Implant, per 3.6 mg.
J0640	Injection, Leucovorin Calcium, per 50 mg.
J9045	Carboplatin, 50 mg.
J1440	Injection, Filgrastim (G-CSF), per 300 mcg.
Q0136	Injection, Epoetin Alpha, (For Non-ESRD Use), per 1000 units
J2405	Injection, Ondansetron Hydrochloride, per 1 mg.
J1625	Injection, Granisetron Hydrochloride, per 1 mg.
J1561	Injection, Immune Globulin, Intravenous, per 500 mg.
J7670	Metaproterenol Sulfate, 0.4%, per 2.5 ml., inhalation solution administered through DME
J1441	Injection, Filgrastim (G-CSF), per 480 mcg.
J9182	Etoposide, 100 mg.
J9000	Doxorubicin HCL, 10 mg.
J9031	BCG (Intravesical) per instillation
J9181	Etoposide, 10 mg.
J7672	Metaproterenol Sulfate, 0.6%, per 2.5 ml., inhalation solution administered through DME
J9293	Injection, Mitoxantrone Hydrochloride, per 5 mg.
J9185	Fludarabine Phosphate, 50 mg.
J9010	Doxorubicin HCL, 50 mg. (code discontinued 12/31/96)
J3370	Injection, Vancomycin HCL, up to 500 mg. (code discontinued for infusion 9/1/96)

APPENDIX B

SUMMARY OF WHOLESALE PRICES AND ESTIMATED SAVINGS FOR 1995 AND 1996

SUMMARY OF WHOLESALE PRICES AND ESTIMATED SAVINGS FOR 1995

HCPCS Code	Average Medicare Allowed Amount	Actual Average Wholesale Price	Savings Based on Actual Average Wholesale Price	Lowest Wholesale Price Found	Savings Based on Lowest Wholesale Price	Highest Wholesale Price Found	Savings Based on Highest Wholesale Price
J2217	\$474.67	\$394.33	\$83,728,802	\$391.00	\$87,202,882	\$396.00	\$81,991,762
J7620	\$0.42	\$0.15	\$106,352,439	\$0.12	\$119,040,331	\$0.21	\$85,081,951
J9265	\$180.82	\$148.70	\$14,425,220	\$146.10	\$15,592,891	\$150.00	\$13,841,385
J9202	\$353.82	\$292.95	\$11,716,412	\$286.84	\$12,891,775	\$296.00	\$11,128,731
J0640	\$23.27	\$2.33	\$61,175,769	\$1.89	\$62,449,291	\$2.90	\$59,499,161
J9045	\$78.01	\$66.67	\$7,226,520	\$64.90	\$8,352,014	\$67.55	\$6,663,773
J1440	\$149.46	\$124.47	\$8,620,001	\$124.20	\$8,711,972	\$125.00	\$8,436,058
00136	\$11.92	\$9.92	\$7,942,246	\$8.84	\$12,246,366	\$10.70	\$4,850,833
J2405	\$5.65	\$4.33	\$10,591,319	\$3.91	\$14,012,161	\$5.31	\$2,712,031
J1625	\$165.29	\$123.58	\$9,709,625	\$117.00	\$11,240,029	\$132.80	\$7,562,405
J1561	\$42.21	\$16.12	\$23,339,871	\$9.33	\$29,422,374	\$32.11	\$9,036,521
J7670	\$1.22	\$0.32	\$23,986,743	\$0.26	\$25,544,703	\$0.40	\$21,872,652
J1441	\$234.96	\$195.50	\$5,256,151	\$188.90	\$6,135,284	\$198.80	\$4,816,584
J9182	\$131.25	\$76.70	\$11,660,930	\$56.00	\$16,085,515	\$113.55	\$3,783,570
J9000	\$42.14	\$13.12	\$11,445,719	\$10.90	\$12,319,556	\$14.70	\$10,821,019
J9031	\$155.20	\$120.54	\$3,659,236	\$94.28	\$6,430,898	\$138.44	\$1,769,236
J9181	\$14.03	\$7.80	\$6,688,786	\$5.60	\$9,052,665	\$11.36	\$2,872,584
J7672	\$1.22	\$0.31	\$11,560,517	\$0.26	\$12,175,863	\$0.40	\$10,400,217
J9293	\$206.69	\$127.49	\$6,846,261	\$123.23	\$7,214,694	\$132.01	\$6,456,006
J9185	\$173.03	\$149.08	\$1,890,949	\$145.25	\$2,193,648	\$152.00	\$1,660,634
J9010	\$204.21	\$64.86	\$9,942,878	\$52.00	\$10,860,640	\$73.50	\$9,326,551
J3370	\$10.07	\$3.69	\$7,235,171	\$2.02	\$9,122,193	\$6.99	\$3,491,965
TOTAL			\$445,001,565		\$498,297,745		\$368,075,629

SUMMARY OF WHOLESALE PRICES AND ESTIMATED SAVINGS FOR 1996

HCPCS Code	Average Medicare Allowed Amount	Actual Average Wholesale Price	Savings Based on Actual Average Wholesale Price	Lowest Wholesale Price Found	Savings Based on Lowest Wholesale Price	Highest Wholesale Price Found	Savings Based on Highest Wholesale Price
J9217	\$499.72	\$414.73	\$104,365,435	\$409.27	\$111,066,902	\$421.00	\$96,663,201
J7620	\$0.41	\$0.19	\$92,199,355	\$0.16	\$105,604,026	\$0.25	\$67,530,255
J9265	\$181.32	\$148.56	\$22,757,465	\$140.26	\$28,526,148	\$155.43	\$17,986,896
J9202	\$378.29	\$329.43	\$11,215,983	\$317.00	\$14,067,894	\$341.85	\$8,364,073
J0640	\$21.70	\$2.81	\$52,514,021	\$2.39	\$53,670,253	\$3.45	\$50,724,087
J9045	\$82.76	\$67.64	\$12,539,724	\$64.90	\$14,814,584	\$70.55	\$10,128,000
J1440	\$154.65	\$123.39	\$11,592,740	\$121.56	\$12,271,393	\$126.00	\$10,624,824
Q0136	\$11.93	\$10.37	\$10,399,198	\$9.31	\$17,440,772	\$10.70	\$8,195,663
J2405	\$6.08	\$4.28	\$14,319,348	\$3.92	\$17,172,050	\$4.73	\$10,776,959
J1625	\$170.02	\$125.71	\$13,399,842	\$122.90	\$14,250,690	\$128.00	\$12,708,277
J1561	\$42.21	\$16.65	\$24,808,622	\$12.50	\$28,833,317	\$34.00	\$7,967,739
J7670	\$1.23	\$0.41	\$9,935,367	\$0.32	\$10,965,079	\$0.51	\$8,658,040
J1441	\$246.34	\$196.76	\$8,470,488	\$191.99	\$9,285,542	\$202.25	\$7,532,512
J9182	\$137.57	\$70.91	\$13,362,365	\$37.06	\$20,147,028	\$112.57	\$5,011,200
J9000	\$44.19	\$13.65	\$12,480,751	\$10.87	\$13,616,851	\$17.95	\$10,723,475
J9031	\$157.53	\$133.13	\$2,682,097	\$112.00	\$5,004,749	\$148.95	\$943,131
J9181	\$14.14	\$8.02	\$5,909,155	\$3.71	\$10,077,601	\$11.26	\$2,784,899
J7672	\$1.23	\$0.44	\$4,805,175	\$0.32	\$5,492,908	\$0.55	\$4,117,563
J9293	\$172.81	\$142.40	\$2,712,650	\$139.91	\$2,935,141	\$145.38	\$2,447,586
J9185	\$179.45	\$156.50	\$2,049,320	\$152.00	\$2,451,148	\$161.00	\$1,647,493
J9010	\$207.12	\$65.46	\$10,513,722	\$54.00	\$11,364,260	\$76.00	\$9,731,464
J3570	\$9.44	\$4.42	\$4,213,709	\$3.45	\$5,027,227	\$6.45	\$2,509,417
TOTAL			\$447,246,532		\$514,085,563		\$357,776,754

APPENDIX C

INDIVIDUAL DRUG ALLOWANCES AND SAVINGS PERCENTAGES FOR 1995 AND 1996

**Estimated Medicare Savings if Acquisition Costs
Were Used for 1995 Prescription Drug Reimbursement**

HCPCS Code	Drug Description	1995 Allowances	Estimated Savings	Percent Saved
J9217	Leuprolide Acetate	\$455,238,461	\$83,728,802	18%
J7620	Albuterol Sulfate 0.083%	\$166,901,971	\$106,352,439	64%
J9265	Paclitaxel	\$79,672,417	\$14,425,220	18%
J9202	Goserelin Acetate Implant	\$65,806,263	\$11,716,412	18%
J0640	Leucovorin Calcium	\$64,687,013	\$61,175,769	95%
J9045	Carboplatin	\$49,306,732	\$7,226,520	15%
J1440	Filgrastim, per 300 mcg.	\$47,401,344	\$8,620,001	18%
O0136	Epoetin Alpha (Non-ESRD Use)	\$47,324,218	\$7,942,246	17%
J2405	Ondansetron Hydrochloride	\$45,279,311	\$10,591,319	23%
J1625	Granisetron Hydrochloride	\$33,013,314	\$9,709,625	29%
J1561	Immune Globulin	\$31,646,866	\$23,339,871	74%
J7670	Metaproterenol Sulfate 0.4%	\$30,822,456	\$23,986,743	78%
J1441	Filgrastim, per 480 mcg.	\$29,865,814	\$5,256,151	18%
J9182	Etoposide, 100 mg.	\$25,713,304	\$11,660,930	45%
J9000	Doxorubicin HCL, 10 mg.	\$16,017,009	\$11,445,719	71%
J9031	BCG (Intravesical)	\$15,494,267	\$3,659,236	24%
J9181	Etoposide, 10 mg.	\$14,510,938	\$6,688,786	46%
J7672	Metaproterenol Sulfate 0.6%	\$13,876,217	\$11,560,517	83%
J9293	Mitoxantrone Hydrochloride	\$13,271,172	\$6,846,261	52%
J9185	Fludarabine Phosphate	\$12,725,400	\$1,890,949	15%
J9010	Doxorubicin HCL, 50 mg.	\$12,515,401	\$9,942,878	79%
J3370	Vancomycin HCL	\$12,051,885	\$7,235,171	60%
TOTAL		\$1,283,141,773	\$445,001,565	35%

**Estimated Medicare Savings if Acquisition Costs
Were Used for 1996 Prescription Drug Reimbursement**

HCPCS Code	Drug Description	1996 Allowances	Estimated Savings	Percent Saved
J9217	Leuprolide Acetate	\$577,547,780	\$104,365,435	18%
J7620	Albuterol Sulfate 0.083%	\$175,399,846	\$92,199,355	53%
J9265	Paclitaxel	\$125,093,980	\$22,757,465	18%
J9202	Goserelin Acetate Implant	\$84,187,487	\$11,215,983	13%
J0640	Leucovorin Calcium	\$57,323,221	\$52,514,021	92%
J9045	Carboplatin	\$67,530,797	\$12,539,724	19%
J1440	Filgrastim, per 300 mcg.	\$54,460,250	\$11,592,740	21%
Q0136	Epoetin Alpha (Non-ESRD Use)	\$79,558,670	\$10,399,198	13%
J2405	Ondansetron Hydrochloride	\$47,331,513	\$14,319,348	30%
J1625	Granisetron Hydrochloride	\$49,691,403	\$13,399,842	27%
J1561	Immune Globulin	\$35,104,622	\$24,808,622	71%
J7670	Metaproterenol Sulfate 0.4%	\$14,203,070	\$9,935,367	70%
J1441	Filgrastim, per 480 mcg.	\$40,592,257	\$8,470,488	21%
J9182	Etoposide, 100 mg.	\$25,739,111	\$13,362,365	52%
J9000	Doxorubicin HCL, 10 mg.	\$17,410,833	\$12,480,751	72%
J9031	BCG (Intravesical)	\$16,544,398	\$2,682,097	16%
J9181	Etoposide, 10 mg.	\$13,381,243	\$5,909,155	44%
J7672	Metaproterenol Sulfate 0.6%	\$6,595,854	\$4,805,175	73%
J9293	Mitoxantrone Hydrochloride	\$14,522,607	\$2,712,650	19%
J9185	Fludarabine Phosphate	\$15,462,970	\$2,049,320	13%
J9010	Doxorubicin HCL, 50 mg.	\$14,541,250	\$10,513,722	72%
J3370	Vancomycin HCL	\$8,234,140	\$4,213,709	51%
TOTAL		\$1,540,457,302	\$447,246,532	29%

APPENDIX D

HEALTH CARE FINANCING ADMINISTRATION COMMENTS